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UNCLAS SECTION 01 OF 04 SANTO DOMINGO 001120

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USDOC FOR 3134/ITA/USFCS/RD/WH; DHS FOR CIS-CARLOS ITURREGUI

E.O. 12958: N/A

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SUBJECT: DOMINICAN PRESIDENT FERNANDEZ REPORTS TO THE NATION

1. In the traditional national day speech to the Dominican Congress President Leonel Fernandez claimed credit for successful economic stabilization in his first six months in office and sought to present himself as a knowledgeable leader with a vision for modernization and reform. He did not touch on partisan politics except indirectly, in references to the financial and economic crisis inherited by his administration. In his highly technical presentation Fernandez appeared to target international financial analysts more than the Dominican public. He confirmed the need for the IMF standby agreement and justified the free trade agreement "with the United States" as the best way to maintain the nation's export competitiveness. The President made no mention at all of foreign affairs and scarcely touched on corruption, although he did stress the need to make government institutions perform. He focused mainly on domestic issues -- restoring financial stability and economic growth, investing in human resources through improved education and health, providing more reliable electricity and revamping the police to fight crime and narcotrafficking.

2. Embassy comment follows septel and on SIPRNET.

3. Following is our precis in English of the 18-page speech, which took more than an hour to deliver.

(BEGIN PRECIS)

NATIONAL DAY ADDRESS BY PRESIDENT LEONEL FERNANDEZ, FEBRUARY 27, 2005

It is a great honor to be part of a community of free citizens. Six months ago when I took office the Dominican Republic was in a dangerous situation, similar to that of a patient in intensive care. The patient has moved from the emergency room, and today finds himself in the process of recovery and improvement.

The country has suffered the worst maladies: the highest inflation in Latin America, the greatest devaluation of the peso in national history, zero economic growth, a fiscal deficit, arrears in the payment of external debt, an exorbitant increase in internal debts, and, coupled with this, an abrupt fall in international reserves.

In summary: decadence instead of progress, disillusion in place of hope, sadness and worry instead of happiness and optimism.

#### CHALLENGES AND SOLUTIONS

Permit me quickly to review the challenges we have faced, and with your collaboration, the remedies and solutions we have found.

Inflation, for example, rose 33 percent from January to August 2004, and was projected to reach 47 percent by year's end. But as the investment firm of Bear Stearns commented two weeks ago, inflation actually fell in the last of the year and inflationary pressures are under control.

The exchange rate when I took office had risen to 45 pesos on the dollar, and the interest rate earlier in 2004 surpassed 50 percent. Now it fluctuates in the 28-30 range, a strengthening that was unthinkable at the time we assumed office.

The new government had to take measures to correct the inherited fiscal deficit. The tax reform raised the value-added tax from 12 to 16 percent. We have adjusted the excise tax on fuel to compensate for inflation, as well as to focus the subsidies on petroleum gas (GLP) on low-income consumers.

The administration has put into practice policies intended to reduce the fiscal deficit of the public sector. For the internal debt, our government has paid arrears of 2.4 million pesos. The unemployment rate when we entered office exceeded

18 percent, a notable increase from our departure in 2000 when it was 13.9 percent. The minimum wage declined by 28.4 percent in real terms over the past four years. Over that period another 1.3 million Dominicans fell below the poverty line, so that now 3.3 million are poor.

The immediate short-term objective is the recovery of macroeconomic stability. Some questioned if a new IMF agreement was necessary; it certainly is. The agreement provides more than 2 billion dollars for the Dominican Republic, and its signature consolidates the confidence of economic participants. The government now must restructure its external bonds, reprogram debts to commercial banks and suppliers, plan for new rescheduling in 2005 with the Paris Club, and obtain new financing from private local banks.

With respect to monetary policy, we have eliminated excess liquidity. After an increase of 102 percent in 2003, the monetary base only rose 1.3 percent last year. We achieved this by employing open market mechanisms.

One of the major problems facing the economy is the quasi-fiscal deficit of the Central Bank. To reduce this deficit, the Central Bank is using not only traditional instruments, but also an integral strategy including innovations in monetary policy.

I recognize that these technical themes are very complicated and difficult for most people to understand, but given their vital importance to the economy, it is necessary that the people listen and appreciate the immense efforts of the government to overcome our problems.

Another advance is that investors in Central Bank instruments who wish to liquidate their holdings before maturity now can buy and sell them in the secondary market of Dominican securities, under the same parameters as in international financial markets.

This, ladies and gentleman, is advancement. This is progress. This is modernization.

The government has a consistent and reliable strategy to solve the problem of mounting Central Bank debt. It has finally succeeded in applying a tourniquet to the hemorrhage that was bleeding white the Dominican people.

#### GLOBALIZATION AND TRADE

Because of the rise of globalization, the world has changed abruptly and radically. Nations that do not transform and adapt to these new realities will ultimately fail. John Maynard Keynes, the brilliant English economist, noted that the difficulty does not lie in adopting new ideas so much as discarding the old.

The first great challenge of the 21st century is to construct an efficient and modern national state. Without such institutions we simply will not exist as a country for the international community, or for ourselves. We need a state whose institutions and capacities will inspire confidence in our citizens and in foreign governments of the entire world.

We will construct a country with efficient institutions and responsible officials held to the rule of law. It is also essential to redefine a new paradigm of economic and social development. Until now, the development model we have followed for the past two decades has been characterized by labor-intensive production of textiles and garments oriented to the U.S. market.

For this administration, there is no dilemma between choosing competition or an exchange rate equilibrium. Both are dynamic concepts. What cannot be accepted is the use of monetary policy as a mechanism to correct structural problems and the inability of some sectors of the national economy to compete.

The textile sector should, with the government, work out a plan of reordering and restructuring, with the goal of producing locally raw materials and intermediate goods that are used in the manufacture of finished goods for export. We must create a process of integration of the free zones with other sectors of the national economy.

The best way to mitigate the effects of the elimination of quotas on apparel is to strengthen our competitive position by ratifying the free trade agreement with the United States. This commercial agreement will help maintain the employment levels in free zone manufacturing. All of our economic sectors will go through profound changes as a result of this new competition.

#### MEASURES TO PROMOTE COMPETITIVENESS

Taking this into consideration, we have created the Tourist Cabinet of officials and private sector representatives,

established the National Council of Health and Tourism (CONSATUR), and signed a Plan of Tourist Development of the Southeast to develop the Perdenales and Barahona regions.

The conquest of the market for tourism by Brazilians has begun, and a new Office of Tourist Promotion in Russia is targeting Eastern Europe.

The agriculture sector continues to play a fundamental role in the national economy, as the principal generator of employment for the country and supplier of food. We propose to create a permanent Program for the Recovery of Basic Food Production; to strengthen sanitary and phytosanitary programs; to establish an organized and transparent system of farm support to guarantee the proper marketing of products such as rice, beans and garlic; and to implement in the next two years a Project of Support for the Transition for Agricultural Competitiveness.

We will strengthen the credit offerings of the Agricultural Bank, promote a national program to refurbish and build infrastructure in the rural sector, execute a training program for technicians and farmers and promote agricultural exports.

The Dominican Republic's medium- and long-term strategy for competitiveness should be oriented toward capital-intensive production, based on innovation and modern technologies.

#### THE DIGITAL FUTURE AND EDUCATION

Jeremy Rifkin, in his book "The Era of Access," noted the significance of the "digital divide." In keeping with this reality, the administration is working on reviving our project for a Technology Park in Santo Domingo. We have concluded an agreement for technology training with the Stevens Institute of Technology in the United States and the Pontifical Catholic University Madre y Maestra in the Dominican Republic.

Considering that the development of human capital is where the future of the nation lies, we are making education a priority for this term. We are in process of developing with teachers, students, and parents a consensus strategy on curriculum and goals for the Dominican Republic. We aspire to quality education and are working to install computer labs, community technological centers, community colleges, and pilot bilingual education projects in the public school system. We have also decided to launch a program, the Young University Student Card, which will help students of limited means by providing up to 10,000 pesos in government-guaranteed credit for university students. This program will immediately cover 25,000 students, and eventually up to 100,000. The interest rate will be a preferential 3.5 percent and the minimum payment term 18 months. We will create incentives for the private sector to hire those students as assistants and interns receiving the minimum wage.

#### HEALTH AND WELFARE

In the public health sector, we propose to vaccinate a million babies under a year old; to cover 85 percent of the municipalities with high rates of tuberculosis; strictly to control malaria, dengue fever, rabies and meningitis; to vaccinate 560,000 students against rubella and measles; and to provide antiretroviral medications to treat HIV/AIDS.

I am instructing the National Social Security Council to develop a definitive proposal to provide health insurance coverage to the families of workers inscribed with Social Security.

I consider the electricity sector and citizens, security to be crucial. The government has addressed electricity with a reform plan designed in consultation with the World Bank and USAID.

To deal with crime, the government has designed a Plan of Democratic Security for the Dominican Republic. This includes the institutional strengthening of the police, the introduction of community police in areas most affected by violence, and police training for dealing with extreme situations such as narcotrafficking and natural disasters. The police will be provided with vehicles and communication equipment, bulletproof vests and helmets, and other tools necessary to increase their street presence.

The process of police recruitment will be modernized, as will the plans and career programs of the National Police. The Directorate of Internal Affairs will also be strengthened as a mechanism of control to combat police corruption, and a system of evaluation will be established to promote police on the basis of merit. A professional system of statistics will be designed, to compile a database and map of crime, to have real control over criminal activity. A policy of disarming

the citizenry will be designed to regulate and control weapons.

#### A SANTO DOMINGO METRO

I am aware of other themes of national interest, including, for example, the proposal for a Santo Domingo Metro. Personally, I value all opinions. Similar national efforts have included Franklin Delano Roosevelt's New Deal and France's Eiffel Tower, both of which were criticized.

In any case, in countries like ours there are two agendas: one, the satisfaction of the basic needs of the population, from the pre-modern era; and a modern agenda, according to which -- as Rifkin says -- we must enter the world of cyberspace and the digital era.

We are compelled to prepare the way to enter the new economic world, or we will be condemned indefinitely to remain in backwardness and underdevelopment.

Let us not fear the challenges of progress, and whatever decision we make on the Metro, let us all get on board the train of happiness that will carry us to a future of economic development and modernity.

Let's all go ahead together! (E, pa, alante que vamos -- the PLD campaign slogan)

(END PRECIS)

12. This piece and related items can be consulted on our classified SIPRNET site <http://www.state.sgov.gov/p/wha/santodomingo> along with extensive other material.  
MARSHALL